AR82

2005 ANNUAL REPORT

EXPEDITION
ENERGY INC.

EXPEDITION ENERGY INC.

is a junior oil and gas exploration and development company focusing our current activities in Central, West-Central, the Peace River Arch areas of Alberta and West-Central Saskatchewan. Shares are listed on the TSX-Venture Exchange under the symbol "XPD"

AGM

May 31, 2006 at 10:30 am
Metropolitan Centre
333 4th Avenue SW
Royal Room (2nd floor)
Calgary, Alberta

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President's Message

On behalf of the Board of Directors and Management, I am pleased to present Expedition Energy's 2005 Annual Report. The Company made great strides in all areas of operations in 2005. Expedition drilled 14 wells (9.6 net) resulting in 9 gas wells (7.5 net), 4 oil wells (1.6 net) and one dry and abandoned (.5 net), for a success rate of 93%.

The resulting effect of this success was a production average increase of 378% to 234 BOEPD. The corresponding cashflow increased to $2,061,857 or $0.10 per share and earnings rose to $0.02 per share as compared to a loss on both cashflow and earnings in 2004.

As these results are significant, what is also significant is the 2005 reserve additions to our existing reserve base. These reserves will provide the cashflow to continue building Expedition Energy into the future. Last year the company added 684,900 BOE on a proved plus probable basis bringing total proved plus probable reserves at December 31, 2005 to 1.28 million BOE an increase of 88% over 2004. The value of these assets at a net present value of 10% proved plus probable is $20.38 million dollars or 127% increase over 2004.

Commodity prices and reduced heavy oil weighting have increased operating netbacks to $34.12 per BOE including reduced operating cost of $9.52 per BOE, compared to a netback of $19.41 and operating costs of $10.60 in 2004.

Year over year finding and development costs have increased in 2005 to $15.02 per BOE proved plus probable resulting in a recycle ratio of 2.27.

As well in 2005, the Company acquired 4,288 net acres through land sales and farm-ins in existing and new core areas. The Company also announced plans to move our exploration focus to the multi-zone Peace River Arch area of Alberta.

Currently in 2006 Expedition Energy has 3 wells in various stages of tie-in at Ferrier, Erskine and Cessford, AB. and to date the Company has three new drilling locations licensed and ready to drill once break-up is over. The Company expects to drill 15 wells throughout 2006 and I look forward to announcing results as they become available.

The Company's current production from field reports is approximately 460 BOE/d, with the previously mentioned tie-ins an additional 65 BOE/d should be on stream by approximately May 31, 2006. We continue to acquire landholdings on prospects in various stages of development to add to our 2006 drilling schedule. In the first four months of 2006 the company has purchased approximately 2,300 net acres at Alberta land sales.

I would like to take a moment to thank the management and staff for their diligence and persistence as we continue to build and look for opportunities to grow our company and as well to thank the Board for their guidance and support. I would especially like to thank our shareholders for their patience and support in growing our company to this point and into the future.

M. Scott St.John
President & CEO

Management's Discussion and Analysis

Statements made throughout this management's discussion and analysis may contain forward-looking statements including expectations of future production, cash flow and earnings. These statements are based on current expectations that involve a number of risks and uncertainties, which could cause actual results to differ from those anticipated. These risks include, but are not limited to: the risks associated with the oil and gas industry (e.g. operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses; health, safety and environmental risks); and commodity price and exchange rate fluctuations. Additional information on these and other factors that could affect Expedition Energy Inc.'s ("Expedition" or the "Corporation") operations or financial results are included in Expedition's reports on file with Canadian securities regulatory authorities.

This management's discussion and analysis "MD&A" of the financial condition and the results of operations should be read in conjunction with the audited financial statements for the year ended December 31, 2005 and for the year ended December 31, 2004 together with the accompanying notes as it is intended to assist readers in understanding the key factors underlying the financial results.

Basis of presentation — The financial data presented below has been prepared in accordance with Canadian generally accepted accounting principles. Funds from operations, which is determined before changes in non-cash working capital, is used in the oil and gas industry as a measure of performance. Operating netbacks are calculated by subtracting royalties, production and transportation expenses per barrel of oil equivalent "BOE" from the average sales price per BOE. Funds from operations and operating netbacks, as used by Expedition, does not have a standardized meaning prescribed by Canadian GAAP and, therefore, may not be comparable with the calculation of similar measures by other corporations. Many of the Corporation's peers in the oil and gas industry use the same definition of funds from operations and operating netbacks and the disclosure herein enhances comparability with those peers. Funds from operations, as presented, is not intended to represent operating profits, nor should it be viewed as an alternative to funds provided by operating activities, net earnings or other financial performance calculated in accordance with GAAP. The Corporation calculates funds from operations per share using the same method and shares outstanding which are used in the determination of earnings per share. The reporting and the measurement currency is the Canadian dollar.

BOE presentation — The term barrels of oil equivalent "BOE" may be misleading, particularly if used in isolation. The BOE conversion ratio used by the Corporation of 6 mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All BOE conversions in this report are derived by converting gas to oil in the ratio of six thousand cubic feet of gas to one barrel of oil.

Disclosure controls — Disclosure controls and procedures have been designed to ensure that relevant and accurate information needed to comply with the Corporation's continuous disclosure obligations is accumulated and summarized to allow timely decisions regarding disclosure and to ensure that the risk of a material error or fraud is minimal. Management has concluded the Corporation's disclosure control and procedures, as at December 31, 2005 are effective in ensuring that material information is accumulated and disclosed accurately. The Corporation's management believes that cost effective disclosure controls, disclosure procedures and internal controls systems can only provide reasonable assurance and not absolute assurance, that the objectives of the controls and procedures are met.

Accounting policies and estimates — Management is required to make judgements, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Corporation. Details outlining Expedition's accounting policies are contained in the notes to the audited financial statements for the year ended December 31, 2005.

Growth strategy — Expedition expects to continue to grow by (a) implementing its strategy of acquiring assets with exploitation potential and, (b) implementing its full-cycle exploration program. To complement this strategy, the Corporation has assembled a team of experienced and qualified personnel and is well positioned financially to act quickly on new opportunities. Expedition believes that its growth strategy will continue to increase operating revenue and net asset value for the shareholders.

Expedition's common shares trade on the TSX Venture Exchange under the symbol "XPD". Additional information relating to the Corporation can be found on SEDAR at www. sedar.com.

Annual Financial Information

Overall Performance

Expedition reported continued growth through it's exploration and development program. In the Kerrobert area, two new wells were drilled in 2005 increasing the Corporation's net production to 110 Bbls/d. In the Nevis area, four coal bed methane "CBM" wells were put on production in March 2005. Four more CBM wells were drilled and placed on production in early 2006. In the Ferrier area, the 3-12 well was drilled in the first quarter and placed on production in August of 2005, averaging 89 BOE/d for the remainder of the year. A follow up well was drilled in the fourth quarter and is being tied in and is anticipated to be on production in the second quarter, 2006. In the Highvale, Huxley and Deanne areas, additional wells were placed on production in various times of 2005.

Sales volumes

Crude oil and natural gas liquids "NGL's" sales for the year ended December 31, 2005 was 27,106 Bbls or 74.3 BOE/d compared to 7,144 Bbls or 19.5 BOE/d in 2004. Natural gas sales for the year ended December 31, 2005 was 350,909 Mcf's or 961 Mcf/d compared to 66,473 Mcf's or 182 Mcf/d of gas sales in 2004. Combined sales for 2005 averaged 234.5 BOE/d compared to 49.4 BOE/d for 2004. Oil sales were comprised of heavy oil from the Kerrobert area and light oil and natural gas liquids from the Huxley, Brazeau and Ferrier areas. Gas sales were from the Highvale, Medicine Hat, Huxley, Nevis and Ferrier areas. The increase in sales on a year-to-date basis is due to the tie-in of the Nevis CBM gas wells, Ferrier 3-12 and a additional well at Huxley in 2005. Heavy oil production has increased in 2005 compared to 2004 due to the addition of two more producing oil wells at Kerrobert.

Revenue and Pricing

Revenue from petroleum and natural gas sales for the year ended December 31, 2005 was $4,395,891 compared to $694,313 in 2004. In 2005 the Corporation's average heavy crude oil price was $31.09/Bbl compared to $29.91/Bbl in 2004. Light crude oil & NGL's were $62.61/Bbl compared to $48.13/Bbl in 2004. The combined corporate average price for oil was $38.86/Bbl or a 14% increase in 2005 versus $34.10/Bbl in 2004. Although average oil prices have increased 35% since 2004, Expedition's increase is lower due to the heavy crude oil that made up the bulk of the production for this period.

The prices received for gas during the year ended December 31, 2005 averaged $9.53/Mcf versus $6.78/Mcf for 2004. The combined corporate average price increased from $38.10/BOE in 2004 to $51.36/BOE in 2005 due to the increase in gas production and in overall market prices.

Royalties

Net royalties totaled $546,184 in 2005 compared to $127,749 in 2004. As a percentage of revenue, royalties averaged 12.4% in 2005 and 18.4% in 2004. Royalties include payments made to third party overrides, and to the governments of Saskatchewan and Alberta. Total royalties have increased in conjunction with the increased oil & gas production from Kerrobert, Nevis, Huxley and Ferrier. The percentage decrease is due to a higher number of wells being eligible for the Alberta Royalty Tax Credit and Ferrier 3-12 receiving a royalty exemption due to the deep gas royalty holiday program. This royalty exemption is expected to be completed in early 2006.

Operating and Transportation

Total operating expenses were $814,186 for the year ended December 31, 2005 or $9.52/BOE compared to $193,343 or $10.60/BOE for the year ended December 31, 2004. Transportation expenses for the year ended December 31, 2005 were $114,987 or $1.34/BOE compared to $19,526 or $1.08/BOE for the year ended December 31, 2004. These expenses relate to the marketing and transporting of marketable oil and gas from the wellhead to the sales point. The increases in these marketing and transportation expenses in 2005 are a function of gas being 68.3% of the total production on a BOE basis. The Corporation has incurred increased costs in 2005 due to the higher production volumes as compared to 2004. However on a per BOE basis operating and transportation costs have decreased 8% to $10.86 /BOE for 2005 as compared to $11.68/BOE in 2004. The slight reduction is primarily due to production on a BOE basis is more weighted toward gas than oil, 68% in 2005 compared to 62% in 2004

General and Administrative Expenses "G&A"

Net general and administrative expenses "G&A" for the year ended December 31, 2005 were $899,764 or $10.51/BOE compared to $532,839 or $29.24/BOE in 2004. Net G&A expenses per BOE have declined as the Corporation's production increased in 2005. The Corporation expects that this trend will continue in 2006 as it brings on more production during the year. These current additional expenses in 2005 were incurred in operating a new office for the Corporation, reporting to public shareholders and operations to allow the Corporation to move forward on its strategic plan for the future. Part time consulting staff were utilized to perform land, geophysical and administration work. During the year the Corporation capitalized $206,580 (2004 - $191,667) in G&A. Non cash based stock compensation of $122,796 (2004 - $94,146) was recorded in G&A during the year.

Interest Income

The interest income for the year ended December 31, 2005 was $3,085 compared to $21,252 for the year ended December 31, 2004. This interest was generated from the investment of short-term cash balances early in 2005. Management prudently invests excess cash in short-term investments to ensure the best use of funds while ensuring that all liabilities are paid on a reasonable basis and keeping cash available for opportunities as they arise.

Interest Expense

The interest expense of $84,794 for the year ended December 31, 2005 was incurred on bank loan and long term capital lease as compared to $42,316 in 2004 which was interest incurred in relation to flow-through funds.

Depletion, Depreciation and Accretion

The provision for depletion, depreciation and accretion for the year ended December 31, 2005 was $1,253,738 or $14.65/BOE compared to $233,186 or $12.80/BOE for the comparable period in 2004. The increase is due to both increased production and the addition of higher cost reserves being included in the depletion calculation for 2005.

Taxes

The future income tax provision of $255,131 for the year ended December 31, 2005 compared to a reduction of $235,278 for the same period in 2004 is the result of increasing production and revenues. The issuance of flow-through shares in 2004, 2005 and 2006 has contributed to create a future tax liability due to the renunciation of the Corporation's tax pools. As at December 31, 2005 the Corporation had tax pools of approximately $12.0 million after the cumulative flow-through share issuances and current year estimated claims. At December 31, 2005 the Corporation has commitments of $3,003,703 to be spent on qualifying expenditures prior to December 31, 2006.

Netbacks

Expedition's corporate operating netback for the year ended December 31, 2005 was $2,920,531 or $34.12/BOE (6:1) as compared to $343,695 or $19.41/BOE in fiscal 2004. A detailed calculation of Expedition's netback per barrel of oil equivalent is summarized below:

	Year ended December 31, 2005				Year ended December 31, 2004			
	Heavy Oil $/Bbl	**Light Oil $/Bbl**	**Gas $/Mcf**	**$/BOE (6:1)**	Heavy Oil $/Bbl	Light Oil $/Bbl	Gas $/Mcf	$/BOE (6:1)
Corporate average sale price	**31.09**	**62.61**	**9.53**	**51.36**	29.91	48.13	6.78	38.10
Royalties	**(7.72)**	**(5.46)**	**(0.37)**	**(6.38)**	(3.88)	(9.39)	(1.42)	(7.01)
Net after royalties	**23.37**	**57.15**	**9.16**	**44.98**	26.03	38.74	5.36	31.09
Operating expenses	**(8.12)**	**(8.50)**	**(1.69)**	**(9.52)**	(17.53)	(13.56)	(1.21)	(10.60)
Transportation expenses	**(0.84)**	**(0.43)**	**(0.27)**	**(1.34)**	(1.55)	(1.44)	(0.13)	(1.08)
Netback from operations	**14.41**	**48.22**	**7.20**	**34.12**	6.95	23.74	4.02	19.41
Interest expense				**(0.99)**				(2.34)
Interest income				**0.04**				1.18
Administration (net of stock-based compensation)				**(9.08)**				(24.07)
Cash (used) provided by operating activities				**24.09**				(5.82)
Depletion, depreciation and accretion				**(14.65)**				(12.80)
Stock-based compensation				**(1.43)**				(5.17)
Future income tax (provision) reduction				**(2.98)**				12.91
Net Income (Loss)				**5.03**				(10.88)

Net Income and Funds from operations

Net Income was $430,192 for the year ended December 31, 2005 compared to a net loss of $198,116 in 2004. Funds from operations for the year ended December 31, 2005 was $2,061,857 compared to ($106,062) in 2004. On a per share basis, the net income was $0.02/share for the year ended December 31, 2005 compared to $0.01/share net loss for 2004.

Capital Expenditures

Capital expenditures are summarized below with prior year comparatives:

	Year ended December 31,			
		2005		*2004*
Land acquisition/maintenance	$	**573,238**	$	904,272
Geological & geophysical		**127,922**		213,078
Exploration & development drilling		**7,002,541**		2,987,014
Production equipment		**2,579,460**		607,168
Other		**3,265**		3,083
TOTAL	$	**10,286,426**	$	4,714,615

Liquidity and Capital Resources

The following chart summarizes Expedition's capital structure as at December 31, 2005:

Common shares	$	10,462,471
Contributed surplus		357,641
Retained Earnings		28,993
Working capital deficit		(2,840,601)
Long term debt		264,608
Asset retirement obligations		218,566
Future income taxes	$	896,897

The Corporation has a working capital deficit of approximately $2,840,601 as at December 31, 2005 compared to a $380,157 surplus at December 31, 2004. Current liabilities increased substantially with a very active capital program being completed prior to year end. At December 31, 2005 the Corporation had a unused bank line credit $4,500,00 credit available. Capital expenditures for the year ended December 31, 2005, were $10,286,426 compared to $4,714,615 for 2004. These capital expenditures were funded from a combination of the issuance of new common shares, flow-through shares, debt and working capital. The Corporation issued new share capital of 1,120,380 common shares at $0.55 per share in September and November, 2005 for net proceeds of $509,695. An additional amount of 2,145,502 units at $1.95 were issued in December, 2005 for net proceeds of $3,967,719. Each unit was comprised of two flow-through common shares at a price of $0.70 per share and one common share at a price of $0.55 for a total of 6,436,506 shares being issued. During 2005, 543,804 options with an average price of $0.27/share were exercised over the period for net proceeds of $148,904.

As at April 18th 2006 the Corporation has 28,550,484 common shares issued and outstanding.

Plans for 2006

Current capital expenditure plans for 2006 total $10.0 million, of which $7.55 million is allocated to drilling and facility construction.The balance of planned expenditures will be for land accumulation and seismic work. The Corporation plans to fund these expenditures from a combination of cash flow, debt and if needed equity. The Corporation is continuing it's strategy to grow by the drill bit. We will seek accretive property, corporate acquisitions or swaps to optimize assets in core areas.

Contractual Obligations

The following table summarizes the contractual obligations we are committed to as at December 31, 2005:

	Maturity			
	Within 1 Year	*Years 2 - 3*	*Years 4 - 5*	*After 5 Years*
Capital lease obligations	$ 242,887	$ 273,960	$ –	$ –
Operating and office lease	165,726	331,452	55,242	0
Flow-through share obligations	3,003,703	–	–	–

Related Party Transactions

During 2005 the Corporation paid $78,819 ($87,609 - 2004) in Legal fees to a firm in which a director and corporate secretary is a partner of. These transactions were of the normal course of business at agreed to amounts by both parties concerned.

Quarterly Financial Information

Overall Performance

Expedition reported continued growth in all sectors. The second group of Nevis coal-bed methane wells were completed before the end of 2005 and were tied in to begin production in early 2006. One horizontal and one vertical oil well were completed in Kerrobert SK. and they commenced production in October and November respectively. Wells were drilled in Ferrier, Cessford, Erskine and Huxley areas and now all are in various stages on completion and tie-in work and should be on production in the first half of 2006. The Corporation has continued to seek prospects for drilling opportunities which has resulted in successful accumulation of land in several promising areas.

Results of operations - Selected quarterly information

	2005 Q4	*2005 Q3*	*2005 Q2*	*2005 Q1*
Revenue, net of royalties	$ **1,699,395**	$ 1,284,525	$ 552,027	$ 315,758
Funds from operations	**1,006,010**	861,641	153,546	40,659
Per share – basic ($/share)	**0.05**	0.04	0.00	0.00
Per share – diluted ($/share)	**0.05**	0.04	0.00	0.00
Net earnings (loss)	**202,886**	282,997	16,242	(71,934)
Per share – basic ($/share)	**0.01**	0.01	0.00	(0.00)
Per share – diluted ($/share)	**0.01**	0.01	0.00	(0.00)
Total asset	$ **17,699,660**	$ 12,726,776	$ 10,673,564	$ 9,560,704
Production (BOE/d)	**336.3**	309.9	171.2	117.4
Corporate average price ($/BOE)	$ **60.58**	$ 53.72	$ 38.56	$ 36.81
Operating netback ($/BOE)	$ **41.34**	$ 38.61	$ 23.90	$ 16.92

	2004 Q4	*2004 Q3*	*2004 Q2*	*2004 Q1*
Revenue, net of royalties	$ **224,442**	$ 145,487	$ 110,217	$ 94,976
Funds (used in) from operations	**12,377**	6,557	(58,069)	(66,927)
Per share – basic ($/share)	**0.00**	0.00	(0.01)	(0.01)
Per share – diluted ($/share)	**0.00**	0.00	(0.01)	(0.01)
Net earnings (loss)	**20,289**	(19,207)	(109,650)	(89,546)
Per share – basic ($/share)	**0.00**	(0.00)	(0.01)	(0.01)
Per share – diluted ($/share)	**0.00**	(0.00)	(0.01)	(0.01)
Total assets	$ **8,587,094**	$ 3,789,566	$ 3,459,721	$ 3,633,595
Production (BOE/d)	**71.2**	50.0	41.1	35.6
Corporate average price ($/BOE)	$ **41.11**	$ 37.96	$ 36.29	$ 33.95
Operating netback ($/BOE)	$ **19.41**	$ 25.06	$ 20.36	$ 11.92

Sales volumes

Crude oil and natural gas liquids "NGL's" sales for the three months ended December 31, 2005 was 10,407 Bbls or 113.1 Bbls/d compared to 1,635 Bbls or 17.8 Bbls/d in 2004. Natural gas sales for the three months ended December 31, 2005 was 123,195 Mcf or 1,339 Mcf/d compared to 30,383 Mcf or 330 Mcf/d over the same period in 2004. Combined sales for the fourth quarter of 2005 averaged 336.3 BOE/d compared to 71.2 BOE/d for 2004. Oil sales were comprised of heavy oil from the Kerrobert area and light oil and NGL's from Huxley, Brazeau and Ferrier areas. Gas sales were from the Highvale, Medicine Hat, Huxley, Nevis and Ferrier areas. The major increase in revenues on a year over year basis is due to the tie-in of the CBM wells at Nevis and Ferrier 3-12 gas well. Heavy oil production has increased in 2005 compared to 2004 with production now from three wells in Kerrobert.

Revenue and Pricing

Revenue from petroleum and natural gas sales for the three months ended December 31, 2005 was $1,874,270 compared to $275,413 in 2004. In the fourth quarter of 2005 the Corporation's average heavy crude oil price was down to $26.84/Bbl compared to $32.33/Bbl in 2004. Light crude oil and NGL's were much higher at $64.74/Bbl compared to $45.57 in 2004.The combined corporate average price for oil and NGL's was $40.34/Bbl in 2005 versus $41.10 in 2004.Though world oil prices were up in 2005 the corporate average slipped because of the 65% weighting of heavy oil production in the total oil and NGL's production numbers.

The prices received for gas the three months ended December 31, 2005 averaged $11.81/Mcf or a 72% increase from the $6.85/Mcf for 2004. The combined corporate average price increased from $41.11/BOE in 2004 to $60.58/BOE or 47% increase in 2005 due to the increase in production of gas and in overall market prices.

Royalties

Net royalties were $174,874 in the fourth quarter of 2005 compared to $53,946 in 2004.As a percentage of revenue, royalties averaged 9.3% in 2005 and 21.6% in 2004. Royalties include payments made to third party overrides, and the governments in Saskatchewan and Alberta.Total royalties have increased in conjunction with the increased gas production from Highvale, Medicine Hat, Huxley and Ferrier. The percentage decrease is due to the Ferrier 3-12 well is currently on a deep gas royalty holiday and new production in Alberta is subject to the Alberta Royalty Tax Credit program.

Operating and Transportation Expenses

Total operating expenses totaled $342,861 for the three months ended December 31, 2005 or $11.08/BOE compared to $85,695 or $12.79/BOE for the three months ended December 31, 2004. Transportation expenses for the three months ended December 31, 2004 were $88,209 or $2.85/BOE compared to $6,295 or $0.94/BOE for the three months ended December 31, 2004. The increases in these marketing and transportation expenses in 2005 are a function of an increase in gas as a percentage of total revenue

General and Administrative Expenses "G&A"

Net general and administrative "G&A" expenses for three months ended December 31, 2005 were $271,463 or $7.39/BOE compared to $157,715 or $24.09/BOE in 2004. G&A expenses per BOE have declined as the Corporation's production increased in 2005. The Corporation expects that this trend will continue in 2006 as we bring on more production during the remainder of the year. These current additional expenses were incurred in operating a new office for the Corporation, reporting to public shareholders and operations to allow the Corporation to move forward on its strategic plan for the future. Part time consulting staff were utilized to perform land, admin. and geophysical work.

Interest Income

The interest income for the three months ended December 31, 2005 was $ nil compared to $2,818 for the three months ended December 31, 2004. This interest generated in 2004 came from the investment of short-term cash balances.

Interest Expense

The interest expense for the three months ended December 31, 2005 was $33,574 compared to $(2,181) in 2004. Interest was a result of a line of credit with the corporation's bank. A correction was necessary in the fourth quarter 2004 to the total interest expensed for the year due to a rate correction and corrections to actual expenditures during the previous quarters.

Depletion and Depreciation

The provision for depletion, depreciation and accretion for the three months ended December 31, 2004 was $551,714 in 2005 or $17.83/BOE compared to $87,662 or $13.39/BOE for the comparable period in 2004. The increase is due to the increased production and the addition of higher cost reserves being included in the depletion calculations in 2005. The Corporation expects to have a similar trend for 2006 as production starts from new higher cost reserve additions.

Taxes

The future income tax provision of $208,688 for the three months ending December 31, 2005 compared to $136,773 reduction for the same period in 2004. As at December 31, 2005 the Corporation had tax pools of approximately $12.0 million after the cumulative flow-through share issuances and current year estimated claims. At December 31, 2005 the Corporation has commitments of $3,003,703 to be spent on qualifying expenditures prior to December 31, 2006.

Netbacks

Expedition's corporate operating netback for the three months ended December 31, 2005 was $1,268,324 or $41.00/BOE. A detailed calculation of Expedition's netback per barrel of oil equivalent is summarized below:

	3 months ended December 31, 2005				*3 months ended December 31, 2004*			
	Heavy Oil $/Bbl	*Light Oil $/Bbl*	*Gas $/Mcf*	*$/BOE (6:1)*	*Heavy Oil $/Bbl*	*Light Oil $/Bbl*	*Gas $/Mcf*	*$/BOE (6:1)*
Corporate average sale price	**26.84**	**64.74**	**11.81**	**60.58**	32.33	45.57	6.85	41.11
Royalties	**(6.26)**	**(3.81)**	**0.41**	**(5.65)**	(7.37)	(6.90)	(1.67)	(8.89)
Net after royalties	**20.58**	**60.93**	**12.22**	**54.93**	24.96	38.67	5.18	32.22
Operating expenses	**(5.69)**	**(1.13)**	**(2.44)**	**(11.08)**	(60.66)	(7.19)	(1.48)	(12.79)
Transportation expenses	**(0.78)**	**(0.14)**	**(0.67)**	**(2.85)**	(5.69)	(2.27)	(0.11)	(0.94)
Net from field operations	**14.11**	**59.66**	**9.11**	**41.00**	(41.39)	29.21	3.59	18.49
Interest expense				**(1.09)**				0.33
Interest income				**0.0**				0.42
Administration (net of stock-based compensation)				**(7.39)**				(17.39)
Cash (used) provided by operating activities				**32.52**				1.85
Depletion, depreciation and accretion				**(17.83)**				(13.09)
Stock-based compensation				**(1.38)**				(6.15)
Future income tax reduction				**(6.74)**				20.42
Net income (loss)				**6.57**				3.03

Net Loss and Cash Flow

Net income was $202,886 for the three months ended December 31, 2004 compared to income of $20,287 in 2004. Cash provided by operating activities for the three months ended December 31, 2004 was $1,006,010 compared to cash from operating activities in 2004 of $12,378. On a per share basis, the net income was $0.01/share for the three months ended December 31, 2005 compared to a small gain of $0.002/share for the previous year.

Higher net revenues in this quarter along with higher prices contributed to an improvement in profits. Administration expenses per BOE were significantly lower in 2005 due to the higher production. With the increase in production volumes expected in 2006, the corporation expects the administration expense cost per BOE to continue its downward trend.

Capital Expenditures

Capital expenditures for the three months ending December 31, 2005 are summarized below with prior year comparatives:

	Three months ended December 31, 2005	2004
Land acquisition/maintenance	$ 261,697	$ 173,325
Geological & geophysical	53	92,977
Exploration & development drilling	4,478,400	1,911,282
Production equipment	577,113	418,968
Other	2,486	845
TOTAL	$ 5,130,659	$ 2,597,396

Related Party Transactions

During the fourth quarter of 2005 the Corporation paid $53,749 (2004 - $76,186) in legal fees to a law firm to which a director and corporate secretary is a partner of. The transactions were of the normal course of business at agreed to amounts by both parties concerned.

Financial Statements and Use of Estimates

The financial statements have been prepared in accordance with Canadian GAAP. In preparing financial statements, management makes certain assumptions, judgements and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. The amounts recorded for depletion and depreciation of petroleum and natural gas property and equipment and the provision for asset retirement obligations are based on estimates. The cost recovery ceiling test is based on estimates of proved reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Critical Accounting Estimates

Under Canadian GAAP, a number of accounting estimates are required to account for and report on the operations of an oil and gas Corporation. Critical accounting estimates are discussed below.

Reserve Estimates and Value

The process of estimating reserves is complex. It requires significant judgements and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions affecting oil and gas prices and costs change. The reserve estimates contained herein are based on current production forecasts, prices and economic conditions. Our reserves are evaluated by Gilbert Laustsen Jung Associates Ltd., an independent engineering firm.

Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result, the subjective decisions, new geological or production information and a changing environment may affect these estimates. Revisions to reserve estimates can arise from changes in year-end oil and gas prices and reservoir performance. Such revisions can be either positive or negative.

In accordance with full cost accounting, capital costs associated with developed or abandoned properties are charged to the income statement in the form of a depletion and depreciation provision. This provision is a direct function of the relative portion of reserves that have been produced in the period. Accordingly, a 20% variance in the reserve estimate will have a corresponding effect in the depletion and depreciation provision for the period.

The final component of the financial statements affected by the reserve estimation and value is the determination of the lower of the carrying value or fair value of our developed asset base. This is determined using a ceiling test analysis of the underlying asset base. This test compares the cash flows expected from future production of proved reserves plus the undeveloped capital asset base with the carrying value of property and equipment. Where the net book value exceeds the fair value, a write down of assets is the result. This reduces earnings before tax and therefore affects the future tax provision based on the Corporation's tax rate during the period. At December 31, 2005 the estimated sum of undiscounted cash flows exceeded the carrying value of the property and equipment by $7.8 million.

Undeveloped Capital Asset Base

In accordance with full cost accounting, the undeveloped capital asset base remains on the balance sheet at cost and is not depleted. This inventory of prospects assumes that the estimated future value of these properties will equal or exceed the base. These costs represent the accumulated costs on undeveloped lands and prospect costs in progress, and as at December 31, 2005, these costs totaled $536,201. The undeveloped capital asset base is tested annually for imparment by comparing it to its fair value.

During the course of the Corporation's growth, capital continues to be invested in the prospects until they are considered uneconomic to be continued or succeed as a developed property. In both cases, the costs become part of the depletion base referred to above. This transfer may increase or decrease the depletion provision and it may or may not cause a ceiling test write down referred to in the reserve estimate notation. The effect of the transfer is subject to the reserve additions made to the base.

Future Income Tax Rate

Due to the difference between accounting and tax regulations, the timing of deductions results in differences in arriving at the tax expense of the Corporation. This timing and tax rate estimations gives rise to a future tax provision recorded to the statement of operations and deficit, and a future tax liability or asset on the balance sheet.

In order to determine this provision, the tax rates of future taxation periods must be estimated. Typically, the rate used corresponds to the current taxation year being examined. From time to time, these rates change as prescribed by the Canada Revenue Agency. Accordingly, during the remaining life of a corporation, the liability shown on the balance sheet may materially differ from that reported in the financial statements of the corporation.

Stock-Based Compensation

The Corporation determines the fair value of each option granted expected on the date of grant using the Black-Scholes option pricing model. This model required the estimation of the hold period prior to the exercise of the Corporation stock options as well as the volatility in the price of the Corporation's shares. A significant adjustment in either assumption may materially affect general and administration expense, earnings before tax, net earnings and retained earnings.

Asset Retirement Obligation

Under current reporting requirements, we must determine the fair value of the asset retirement obligation by estimating site reclamation cost, inflating these costs to the estimated time of expenditure, then discount the amount back to the reporting date. The primary estimate involves determining the total of these future costs. The accuracy of this amount is subject to a number of other unknown variables including inflation, time, economics and location. Adjustments in the estimated cost may materially affect the depletion and accretion provision charged to the statement of operations and deficit before taxes by the same amount. Future taxes will be the effective tax rate applied to this adjustment. The net of the depletion and accretion adjustment and the offsetting tax provision effect will directly change earnings and retained earnings by the same amount.

Business Risks and Uncertainties

Natural gas and crude oil exploration, development, production and marketing operations inherently have a number of business risks and uncertainties including the uncertainty of finding new reserves, the instability of commodity prices, operational risks, the cost of capital available to fund exploration and development programs, regulatory issues and taxation, and the requirements of new environmental laws and regulations. The Corporation manages these risks by employing competent professional staff, following sound operating practices and utilizing cash flow from operations and the prudent issuance of equity to fund capital expenditures so that debt does not become a burden. The Corporation generates its exploration prospects internally. Extensive geological, geophysical, engineering and environmental analyses are performed before committing to the drilling of new prospects. These analyses are used to ensure a suitable balance between risk and reward.

The Corporation conducts its operations in a manner consistent with environmental regulations as stipulated in provincial and federal legislation. Expedition is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased capital and operating expenditures as a result of the increasingly stringent laws relating to the protection of the environment.

Expedition's operations are subject to the risks normally associated with the oil and gas industry including hazards such as unusual or unexpected geological formations, high reservoir pressures, and other conditions involved in drilling and operating wells. The Corporation minimizes these risks using prudent safety programs and risk management, including insurance coverage against potential losses.

The oil and gas industry has been subject to considerable price volatility, over which companies have little control, and a material decline in the price of oil and/or natural gas could result in a significant decrease in the Corporation's future anticipated revenues. The oil and gas industry has inherent business risks and there is no assurance that products can continue to be produced at economical rates or that produced reserves will be replaced. Fluctuations in currency and exchange rates and changes in production volumes are daily risks in the oil and gas industry.

Although the Corporation has no set policy, management of the Corporation will use financial instruments to reduce corporate risk in certain situations.

Financial

Management's Report to the Shareholders

The accompanying financial statements are the responsibility of management and the Board of Directors of the Corporation. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial and operating information presented in the annual report is consistent with that shown in the financial statements.

Management maintains appropriate systems of internal control which ensure transactions are appropriately authorized, assets are safeguarded, and financial records are properly maintained.

External auditors appointed by the shareholders have conducted an examination of the corporate and accounting records and have provided an independent professional opinion. The Audit Committee of the Board of Directors has reviewed the consolidated financial statements with management and the external auditors and has reported to the Board of Directors. The Board has approved the financial statements.

Scott St. John
President and CEO

April 18, 2006

Auditor's Report to the Shareholders

We have audited the balance sheets of Expedition Energy Inc. as at December 31, 2005 and 2004 and the statements of operations and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada

April 18, 2006

Balance Sheets

	December 31, 2005	December 31, 2004
ASSETS		
Current assets		
Cash and cash equivalents	$ 687,716	$ 1,912,161
Accounts receivable	1,831,572	593,275
Deposits and prepaid expenses	110,595	61,082
	2,629,883	2,566,518
Property and equipment *(note 3)*	14,992,079	5,942,878
Goodwill	77,698	77,698
	$ 17,669,660	$ 8,587,094
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 5,271,874	$ 2,186,361
Current portion of long-term debt *(note 7)*	198,610	–
	5,470,484	2,186,361
Long term debt *(note 7)*	264,608	–
Asset retirement obligations *(note 2)*	218,566	89,169
Future income tax liability *(note 5)*	896,897	72,755
SHAREHOLDERS' EQUITY		
Share capital *(note 4)*	10,462,471	6,343,028
Contributed surplus *(note 4)*	357,641	296,980
Retained earnings (deficit)	28,993	(401,199)
	10,849,105	6,238,809
	$ 17,699,660	$ 8,587,094

Bank debt (note 6)
Commitments (note 9)
See accompanying notes to financial statements.

On behalf of the Board:

M. Scott St. John
Director

D. Stephen Burtt
Director

Statements of Operations and Retained Earnings (Deficit)

		Year ended December 31, 2005		*Year ended December 31, 2004*
Revenues				
Petroleum and natural gas revenues	$	**4,395,891**	$	694,313
Less: Royalties (net of Alberta Royalty Tax Credit)		**(546,184)**		(127,749)
		3,849,707		566,564
Interest income		**3,085**		21,252
		3,852,792		587,816
Expenses				
Operating		**814,186**		193,343
Transportation		**114,987**		19,526
General and administrative		**899,764**		532,839
Interest on long term debt		**44,904**		–
Interest expense, other		**39,890**		42,316
Depletion, depreciation and accretion		**1,253,738**		233,186
		3,167,469		1,021,210
Net income (loss) before income taxes		**685,323**		(433,394)
Future income tax (provision) reduction *(note 5)*		**(255,131)**		235,278
Net income (loss) for the year		**430,192**		(198,116)
Deficit, beginning of year		**(401,199)**		(203,083)
Retained Earnings (deficit), end of year	$	**28,993**	$	(401,199)
Basic and diluted earnings (loss) per common share	$	**0.02**	$	(0.01)
Weighted average common shares outstanding				
Basic		**21,462,734**		13,789,116
Diluted		**21,532,411**		14,118,910

See accompanying notes to financial statements.

Statements of Cash Flows

	Year ended December 31, 2005	Year ended December 31, 2004
Cash (used) provided in operating activities:		
Net income (loss) for the year	$ 430,192	$ (198,116)
Items not affecting cash:		
Depletion, depreciation and accretion	1,253,738	233,186
Future income tax provision (reduction)	255,131	(235,278)
Stock-based compensation expense	122,796	94,146
	2,061,857	(106,062)
Net change in non-cash working capital	(272,049)	(52,072)
	1,789,808	(158,134)
FINANCING ACTIVITIES		
Issuance of common shares, net of issue costs	4,626,318	3,364,147
	4,626,318	3,364,147
INVESTING ACTIVITIES		
Expenditures on property and equipment	(9,562,543)	(4,714,615)
Repayment of long-term debt *(note 7)*	(147,781)	–
Net change in non-cash working capital	2,069,753	1,372,913
	(7,640,571)	(3,341,702)
Decrease in cash and cash equivalents	(1,224,445)	(135,689)
Cash and cash equivalents, beginning of year	$ 1,912,161	$ 2,047,850
Cash and cash equivalents, end of year	687,716	1,912,161
Interest received	3,085	20,046
Interest paid	$ 78,893	$ 172

See accompanying notes to financial statements.

Notes to Financial Statements December 31, 2005

Nature of operations

The principal business of Expedition Energy Inc. (the "Corporation") is the acquisition of, exploration for and development and production of petroleum and natural gas properties.

1. Significant accounting policies

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management of the Corporation to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting principles described below.

Specifically, the amounts recorded for depletion and depreciation of petroleum and natural gas properties and the provision for asset retirement obligations are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, future oil and gas prices and costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates future periods could be significant.

a) Property and equipment:

The Corporation follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs relating to the exploration for and development of petroleum and natural gas reserves are capitalized in one cost centre. Such costs include land acquisition, drilling of productive and non-productive wells, geological and geophysical, production facilities and equipment, rentals and other carrying charges directly related to unproved properties and administrative expenses directly related to the acquisition, exploration and development activities.

Costs of acquiring unproved properties are initially excluded from the full cost pool and are assessed yearly to ascertain whether impairment has occurred. When proved reserves are assigned to the property or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the full cost pool. Depletion of petroleum and natural gas properties and depreciation of production equipment is calculated using the unit-of-production method, based on production volumes, before royalties, in relation to estimated proven reserves as determined by independent petroleum engineers. For purposes of the depletion and depreciation calculation, petroleum and natural gas reserves are converted to a common unit of measurement on the basis of their relative energy content where six thousand cubic feet of gas equates to one barrel of oil.

Proceeds received from the disposition of petroleum and natural gas properties are accounted for as a reduction of capitalized costs, with no gain or loss recognized, unless such disposition would result in a change greater than 20% in the depletion or depreciation rate.

The Corporation applies a "ceiling test" to capitalized costs to ensure that the net costs capitalized do not exceed the estimated future net revenues from the production of its proven reserves, plus the cost of unproved properties. Future net revenues are calculated using estimated future prices and costs.

Petroleum and natural gas properties are evaluated in each reporting period to determine that the carrying amount in a cost centre is recoverable and does not exceed the fair value of the properties in the cost centre is recoverable and does not exceed the fair value of the properties in the cost centre.

The carrying amounts are assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of the proved reserves and the lower of cost and market of unproved properties exceeds the carrying amount of the cost centre. When the carrying amount is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the cost centre exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties.

The cash flows are estimated using expected future product prices and costs and are discounted using a risk-free interest rate.

Office equipment is depreciated on the declining balance basis at rates ranging from 20% to 30% per annum.

b) Asset retirement obligations:

An asset retirement obligation is recorded as a liability in the period in which a legal obligation is incurred as a result of an acquisition, construction, development and/or normal use of assets.

The associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset and depleted and depreciated using a unit-of-production method over the estimated gross proved reserves. Subsequent to the initial measurement of the asset retirement obligations, the obligations are accreted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

c) Joint Interests:

A portion of the Corporation's exploration, development and production activities is conducted jointly with others. These financial statements reflect only the Corporation's proportionate interest in such activities.

d) Cash and cash equivalents:

Cash and cash equivalents are comprised of cash and all investments with a maturity date of three months or less.

e) Future income taxes:

The Corporation uses the asset and liability method of tax allocation accounting. Under this method, future tax assets and liabilities are determined based on the differences between the accounting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

f) Flow-through shares:

The Corporation has financed a portion of its exploration and development activities through the issue of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditure are renounced to the subscribers in accordance with tax legislation. The estimated cost of the renounced tax deductions are reflected in share capital and future income taxes when the expenditures are renounced.

g) Stock-based compensation:

The Corporation uses the fair value method for valuing stock option and warrant grants. Under this method, compensation cost, attributable to all stock option and warrant grants is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of options or warrants, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

h) Per share amounts:

Basic per share amounts are computed by dividing net income by the weighted average number of common shares outstanding for the period. The treasury stock method is used to determine the dilutive effect of stock options and warrants, whereby any proceeds from the exercise of the stock options are assumed to be used to purchase common shares at the average market price during the period.

i) Goodwill:

Goodwill, at the time of acquisition, represents the excess of the purchase price of a business over the fair value of the net assets acquired. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. If the fair value of the reporting unit is less than its carrying value, a goodwill impairment loss is recognized as the excess of the carrying value of the goodwill over the fair value of the goodwill.

j) Revenue recognition:

Petroleum and natural gas revenues are recognized when title and risks pass to the purchaser.

2. Asset retirement obligations

At December 31, 2005 the estimated total undiscounted amount required to settle the asset retirement obligations ("ARO") was $534,851. These obligations are to be settled based on the economic lives of the underlying assets, which currently extend some 22 years into the future. This amount has been discounted using a credit adjusted risk free interest rate of 8%.

Changes to Asset Retirement Obligation:	*Year ended December 31,2005*	*Year ended December 31,2005*
Beginning of year	**$ 89,169**	$ 54,874
Liabilities incurred	**112,883**	27,690
Accretion expense	**16,514**	6,605
End of year	**$ 218,566**	$ 89,169

3. Property and equipment

	December 31, 2005	*December 31, 2004*
Petroleum and natural gas properties	**$ 16,587,820**	$ 6,304,659
Office furniture and equipment	**20,472**	17,207
Less: accumulated depletion and depreciation	**(1,616,212)**	(378,988)
Net book value	**$ 14,992,079**	$ 5,942,878

During the year ended December 31, 2005 the Corporation capitalized $206,580 (2004 - $191,667) in direct general and administrative costs.

Costs of unproven petroleum and natural gas properties of $536,201 have been excluded from the depletion calculation for the year ended December 31, 2005 (2004 - $449,050). Future capital expenditures of $1,079,000 have been added to the depletion calculation for the year ended December 31, 2005 (2004 - $683,000).

The future commodity prices used for the ceiling test were based on commodity price forecasts by the Corporation's independent reserve engineers adjusted for differentials specific to the Corporation's reserves. The following table summarizes the future benchmark prices the Corporation used for the ceiling test calculation.

	WTI Oil ($US/bbl)	*Foreign Exchange Rate*	*WTI Oil ($Cdn/bbl)*	*Expedition Price Oil*	*AECO Gas ($Cdn/mmbtu)*	*Expedition Gas Price ($Cdn/mcf)*
2006	57.00	0.85	67.06	33.13	10.60	10.37
2007	55.00	0.85	64.71	32.60	9.25	9.03
2008	51.00	0.85	60.00	32.30	8.00	7.78
2009	48.00	0.85	56.47	32.04	7.50	7.28
2010	46.50	0.85	54.71	32.68	7.20	6.98

Escalated at 2% per year thereafter.

4. Share capital

a) Authorized:

Unlimited number of common shares without nominal or par value

b) Issued:

		December 31, 2005		*December 31, 2004*
Common Shares:	**Number**	**Amount**	Number	Amount
Balance - Beginning of year	**20,449,794**	**$ 6,214,683**	12,961,543	$ 2,706,517
Exercise of options - common shares	**543,804**	**148,904**	138,251	36,003
Transfer from contributed surplus on exercise of options		**62,135**		11,070
Issued for cash - common Shares	**1,120,380**	**616,209**		
Share issue costs (net of tax effect of $35,810)		**(70,704)**		
Issued for cash - common Shares			4,250,000	1,700,000
Share issue costs (net of tax effect of $76,201)				(150,452)
Issued for cash - flow-through common shares	**6,436,506**	**4,183,729**		
Share issue costs (net of tax effect of $72,623)		**(143,387)**		
Issued for cash - flow-through common shares			3,100,000	2,015,000
Share issue costs (net of tax effect of $52,398)				(103,455)
Transfer of share purchase warrants on expiry (i)		**128,345**		
Income tax effect of flow-through common shares				(677,443)
Balance, end of year	**28,550,484**	**$ 10,462,471**	20,449,794	$ 6,214,683
Share Purchase Warrants:				
Balance - Beginning of period		**$ 128,345**	–	$ 131,233
Tranfer to common shares upon expiry (i)		**(128,345)**		
Costs to extend warrants (i) (net of tax effect of $1,462)				(2,888)
Balance - end of period		**$ –**		$ 128,345
Total Share Capital - end of year		**$ 10,462,471**		$ 6,343,028

(i) Effective October 5, 2004 the period to exercise the warrants of Expedition Energy Inc. was extended to November 15, 2005. At November 15, 2005 no warrents were exercised and all of them expired.

At December 31, 2005, the Corporation has fulfilled its flow-through share commitments to be spent on qualifying expenditures prior to year end for the flow-through share issue completed in fiscal 2004. For the flow-through issue completed in 2005, the Corporation will spent $3,003,703 in qualifying expenditures prior to December 31, 2006.

c) Employee, director and agent options and warrants:

During the year ended December 31, 2005, 543,804 (2004 – 138,251) stock options were exercised.

	Year ended December 31, 2005			*Year ended December 31, 2004*		
	Weighted- Number of Options		***average exercise price***	*Weighted- Number of Options*		*average exercise price*
Outstanding - Beginning of period	**2,476,179**	$	**0.48**	2,189,430	$	0.50
Granted/(Cancelled)						
Options to employees and directors	**982,000**		**0.47**	425,000		0.30
Options to employees and directors	**(406,875)**		**0.48**			
Options to agents	**(323,777)**		**(0.48)**			
Warrants to agents	**40,000**		**.70**			
Warrants to agents	**(400,000)**		**(0.80)**			
Exercised	**(543,804)**		**(0.27)**	(138,251)		0.26
Outstanding - end of period	**1,823,723**		**0.56**	2,476,179	$	0.48
Exercisable - end of period	**858,223**	$	**0.49**	1,744,929	$	0.50

During the year ended December 31, 2005, no warrants were exercised or cancelled.

Stock options that are currently exercisable are at prices that range from $0.27 to $0.70.

Exercise price Range	*Options issued during the year*	*Options outstanding at December 31, 2005*	*Weighted average contractual life (years)*
0.25 – 0.40	375,000	637,500	3.9
0.41 – 0.55	487,000	160,000	4.9
0.56 – 0.70	120,000	1,026,223	3.2

d) Stock-based compensation:

The fair value of the stock options granted during the year ended December 31, 2005 was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Year ended December 31, 2005	*Year ended December 31, 2004*
Expected life (years)	**5.0**	4.0
Risk free interest rate	**3%**	3%
Expected volatility	**75%**	75%

The weighted average fair value of director and employee options granted during the year ended December 31, 2005 was $0.29 per option (2004 - $0.18). For the year ended December 31, 2005 compensation expense of $122,796 (2004 - $94,146) was recorded as general and administrative expense with an equal amount recorded to contributed surplus.

e) Contributed surplus:

Changes to contributed surplus:

		Year ended December 31, 2005		Year ended December 31, 2004
Beginning of year	$	**296,980**	$	213,904
Stock based compensation		**122,796**		94,146
Transfer to share capital on exercise of options		**(62,135)**		(11,070)
End of year	$	**357,641**	$	296,980

5. Income taxes

(a) Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates of 38.02% (2004 - 38.87%) to the loss before income taxes as follows:

		Year ended December 31, 2005		Year ended December 31, 2004
Net income (loss) before income taxes	$	**685,323**	$	(433,394)
Expected income taxes (reduction)		**260,560**		(167,377)
Increase (decrease) in taxes resulting from:				
Crown royalties		**115,597**		35,013
Alberta royalty tax credit		**(24,000)**		(12,077)
Non-deductible stock-based compensation		**46,756**		36,359
Resource allowance		**(143,287)**		3,889
Change in income tax rate and rate reductions		**(2,652)**		(115,399)
Other		**2.157**		(15,685)
Income tax expense (reduction)	$	**255,131**	$	(235,278)

(b) The components of future income taxes are as follows:

		December 31, 2005		December 31, 2004
Future income tax liabilities:				
Property and equipment	$	**(1,396,498)**	$	(598,748)
Future income tax assets:				
Asset retirement obligations		**75,668**		29,979
Share issue costs		**254,606**		228,002
Non-capital losses		**137,262**		268,012
Other		**32,065**		–
		499,601		525,993
Future income taxes	$	**(896,897)**	$	(72,755)

(c) The Corporation has available non-capital losses totalling approximately $408,000 which expire commencing in 2007.

6. *Bank debt*

At December 31, 2005 the Corporation has an agreement with it's banker that establishes a revolving line of credit for a maximum amount of $4,500.000 (2004 - $350,000) secured by a general assignment of book debts and a $25,000,000 (2004 - $3,000,000) debenture with a floating charge over all the assets of the corporation. The interest rate charged is the bank's prime plus.75% (2004 - prime plus 1%). At December 31, 2005 no amount was drawn against this available facility (2004 - $nil).

7. *Long-term debt*

On February 2, 2005 the Corporation entered into an agreement with a third party to finance the purchase of a compressor for one of it's producing properties. The loan agreement and the compressor value were $425,000. The implicit interest rate on this financing is 13%. Payments of $15,245 per month are required for 24 months commencing March 4, 2005 and a lump sum payment of $130,700 is due on the last payment date. Also included in the agreement is the issue of 40, 000 share purchase warrants to the broker to acquire 40,000 common shares at an exercise price of $0.70 per share expiring in August 2006.

On June 24,, 2005 the Corporation entered into an agreement with a third party to finance another compressor for another producing property.The loan agreement and compressor value were $186,000. The implicit interest rate is 10.022% with 24 monthly payments of $4,998 plus applicable taxes commencing August 1, 2005. A final lump sum payment of $93,000 is required on the last payment date.

Long-term debt obligations are as follows:

	Principal	*Interest*	*Total*
2006	198,610	44,277	242,887
2007	264,608	9,352	273,960
	463,218	53,629	516,847

The fair value of the stock options granted under this agreement was estimated at the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Year ended December 31, 2005
Expected life (years)	1.5
Risk free interest rate	3%
Expected volatility	75%

The weighted average fair value of these options granted during the year of 2005 was $0.13 per option.An expense of $5,264 was recorded in general and administrative expense with an equal amount recorded to contributed surplus.

8. Related party transactions

The financial statements include balances and transactions with directors and officers of the Corporation and corporations related to directors of Expedition Energy Inc. as follows:

	Year ended December 31, 2005	Year ended December 31, 2004
Transactions during the year		
Legal fees	$ **78,819**	$ 87,609
Related party payables included in accounts payable and accrued liabilities	$ **27,034**	$ 32,534

Theses transactions are in the normal course of business and have been recorded at the exchange amounts, being the amounts agreed to by both the parties.

9. Commitments

The Corporation has entered into agreements related to the rental of office space and production equipment with the following annual commitments:

2006	$ 165,726
2007	$ 165,726
2008	$ 165,726
2009	$ 55,242

At December 31, 2005, the Corporation has commitments relating to the issue of flow-through shares in 2005 of $3,003,703 to be spent on qualifying expenditures prior to December 31, 2006

10. Cash flow information

	Year ended December 31, 2005	Year ended December 31, 2004
Sources (uses) of cash:		
Accounts receivable	$ **(1,238,297)**	$ (361,285)
Deposits and prepaid expenses	**(49,513)**	47,776
Accounts payable and accrued liabilities	**3,085,514**	1,634,350
	$ **1,797,704**	$ 1,320,841
Changes in non-cash working capital related to:		
Operating activities	$ **(272,049)**	$ (52,072)
Investing activities	**2,069,753**	1,372,913
	$ **1,797,704**	$ 1,320,841

11. Financial instruments

(a) Fair value

The fair values of the Corporation's accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to their short-terms to maturity.

(b) Credit risk

A portion of the Corporation's accounts receivable are with joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of the Corporation's oil and natural gas production are subject to an internal credit review designed to minimize the risk of non-payment.

Corporate Information

Board of Directors

Peter Gross,
Chairman

Steve Burtt
William Guinan
Cameron Millikin
Scott St. John

Executive Officers

Scott St. John,
President & CEO

Alan Bamsey,
Vice President Operations

Neil Burrows,
Vice President Finance & CFO

Tom Donaghy,
Vice President Exploration & Development

William Guinan,
Secretary

Auditors

KPMG LLP,
Calgary, Alberta

Evaluation Engineers

GLJ Petroleum Consultants Ltd.,
Calgary, Alberta

Legal Council

Borden Ladner Gervais LLP ,
Calgary, Alberta

Registrar and Transfer Agent

Valiant Trust Company,
Calgary, Alberta

Stock Exchange Listing

TSX Venture Exchange Trading symbol "XPD"

Head Office

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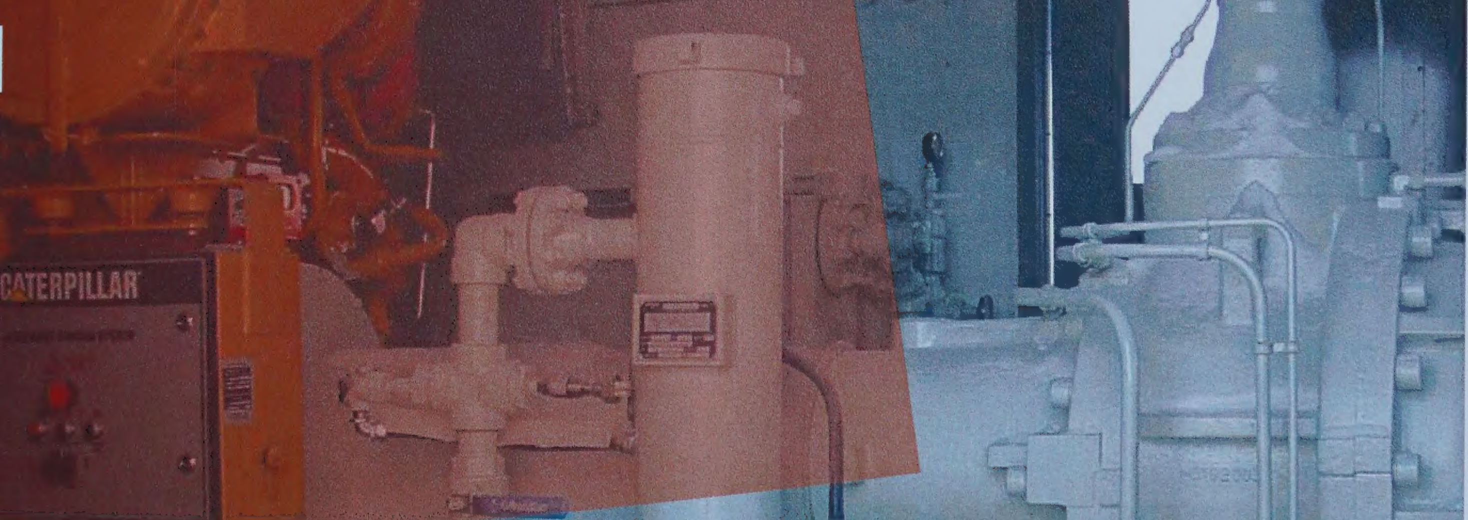
CATERPILLAR

www.xpdenergy.com

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